

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1592-08
Bill No.: Truly Agreed To and Finally Passed SS for HCS for HB 741
Subject: Economic Development
Type: Original
Date: June 7, 2007

Bill Summary: This proposal changes the laws regarding tax increment financing, biodiesel incentives, regional economic development districts, and the Missouri Rice Certification Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	(\$331,008) to Unknown	(\$354,765) to Unknown	(\$365,408) to Unknown
Total Estimated Net Effect on General Revenue Fund	(\$331,008) to Unknown	(\$354,765) to Unknown	(\$365,408) to Unknown

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Regional Economic Development District Sales Tax Trust	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	4 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	4 FTE	4 FTE	4 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government*	\$0	\$0	\$0

* Potential offsetting income and expenses, dependant upon voter approval.

FISCAL ANALYSIS

ASSUMPTION

Sections 30.750 - 30.765 - Linked Deposits;

Officials from the **Office of the State Treasurer (STO)** state while the number of linked deposit requests generated by this new program and the resulting impact on staff workloads can not be known at this time, the STO does not currently believe that the increased workload arising from this new program by itself would warrant one full-time employee.

Sections 99.820 & 99.825 - Tax Increment Financing;

Oversight assumes the changes to the TIF program will not have a fiscal impact on the state. Oversight assumes the newly required approval of the county tax increment financing commission may have an impact on the projects to be approved in the future, but would not have a direct fiscal impact on local governments.

Section 99.1100 - Joint Committee on Tax Policy;

Oversight assumes the Joint Committee on Tax Policy will be able to conduct the feasibility study with existing resources.

Sections 135.535 & 135.562 - Tax credit for home modifications;

Officials from the **Department of Revenue (DOR)** state Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed. However, Taxation does not anticipate that large of a number of claimants; therefore, it anticipates being able to handle the new tax credit with existing resources.

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 4 existing CIT III for 2 months and an additional 2 CIT III for 2 months at a rate of \$55,232.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** assume the need for 1 employee plus expense and equipment to administer the Disability Home Tax Credit. DED assumes the numerous other changes to this version will not request their impact statement.

DED assumes the additional FTE would cost roughly \$89,000 per year.

Oversight assumes DED could administer this \$100,000 program with existing resources.

Officials from the **Department of Social Services** assume the proposal would not fiscally impact their agency.

Since this proposal utilizes unused Rebuilding Communities tax credits for another program, this will result in an increased utilization of the tax credits. This program could result in an additional \$100,000 in tax credits being used for persons that modify a home for a disabled person. However, since **Oversight** has already reflected the potential loss of the Rebuilding Communities tax credit program of up to annual limit, Oversight will assume this proposal does not increase the annual limit (of \$8 million), and therefore, the fiscal impact of the proposal has already been reflected in a prior fiscal note. Therefore, even though this proposal will increase utilization of the tax credit program, Oversight will not reflect an additional loss of revenue to the General Revenue Fund.

Section 142.031 - Biodiesel:

Officials from the **Department of Natural Resources (DNR)** state this proposal: (1) Changes the definition of "feedstock" as it relates to a Missouri qualified biodiesel producer so that non-Missouri agricultural products are included; (2) Requires a Missouri qualified biodiesel producer to register with the Department of Agriculture by September 1, 2007; to begin construction on the biodiesel facility before November 1, 2007; and to begin producing biodiesel fuel before March 1, 2009; and (3) Implements specific payback requirements if a Missouri qualified biodiesel producer sells the biodiesel facility after receiving a grant payment from the Missouri Qualified Biodiesel Producer Initiative Fund.

DNR assumes the bill could provide larger grants to Missouri qualified biodiesel producers based on the proposed amendments to the grant formula. DNR states they would not anticipate a direct fiscal impact from the proposal.

ASSUMPTION (continued)

Officials from the **Department of Agriculture (AGR)** state this legislation will require the AGR to process additional biodiesel license and grant applications, as well as to audit additional facilities for compliance with state statutes and regulations pertaining to the biodiesel producer incentive fund. The department hopes to accomplish this with current staff and the 2.00 additional audit staff included in its FY 2008 budget request. However, given the growth of the biofuel industry in the state, additional staff may be needed in the future to administer the ethanol and biodiesel incentive programs.

There is concern among some prospective biodiesel plants that, because of their location in southeastern or northwestern Missouri, they will not have access to reasonably priced soy oil or animal fat that originates in Missouri. The following table shows the anticipated biodiesel incentive program costs for the four (4) biodiesel plants most likely to be effected by the removal of the requirement that feedstock be either produced or processed in Missouri. Statutory payment rates are utilized (i.e. 30 cents/gal. on the first 15 MG and 10 cents/gal on the next 15 MG). Although all of the annual production is included in the calculations for Dexter, Lilbourn, and Holland, only one-half of the maximum annual production at the Rock Port plant is expected to be sourced from outside the state.

Plant Location	Production Start Date	Max. Annual Production	FY 2008 Payments	FY 2009 Payments	FY 2010 Payments
Dexter	3/15/07	3,000,000 gals.	\$900,000	\$900,000	\$900,000
Lilbourn	1/1/08	5,000,000 gals.	\$750,000	\$1,500,000	\$1,500,000
Holland	1/1/08	5,000,000 gals.	\$750,000	\$1,500,000	\$1,500,000
Rock Port	9/1/08	30,000,000 gals.	\$0	\$1,250,000	\$1,500,000
Payment Totals			\$2,400,000	\$5,150,000	\$5,400,000

Note, however, that since funding for these four plants is already included in MDA's FY 2008 budget request, MDA does not anticipate a need for any additional funding.

Oversight assumes that the legislation only expands where materials may be obtained from.

Sections 251.600 & 251.630 - Regional Economic Development District;

Officials from the **Department of Economic Development** assume this part of the proposal to have local impact only. If it is determined that it would have a fiscal impact, the impact would be unknown.

ASSUMPTION (continued)

Oversight assumes this part of the proposal is permissive in nature and would not have a fiscal impact upon the state or local governments without voter approval. Oversight will show the potential sales tax revenue to the state General Revenue fund for the one percent collection fee that can be retained by the state. The remainder of the sales tax revenue that may be collected, shall be deposited into the state's Regional Economic Development District Sales Tax Trust Fund and transferred to the local political subdivision.

Section 265.525 - Missouri Rice Certification Act;

Officials from the **Department of Agriculture's** assumptions and methodologies are based upon the actions initiated in Arkansas under the Arkansas Rice Certification Act. Assumptions are made that the same or similar requirements imposed on the Arkansas rice industry would be instituted in Missouri.

The fiscal impact is based upon costs associated with inspections, sampling, laboratory analyses and enforcement of rice planting seed not currently conducted by the Plant Industries Division of the Missouri Department of Agriculture. Two Feed and Seed Inspectors would be responsible for sampling all varieties of rice seed offered for sale in Missouri and all farmer saved seed for characteristics of commercial impact as well as auditing required records and perform educational activities. Inspectors would also be involved in inspecting and sampling rice received from other states for processing (rice mills, feed manufacturers and research facilities).

Analyses for characteristics of commercial impact requires DNA testing at the detection level of 0.01 ppm. There are currently only five laboratories in the United States that are certified for testing at this level. The Seed Laboratory Manager would be responsible for contracting with a certified laboratory, accounting and payment for analyses, chain of custody samples, retention of laboratory records, maintain records in accordance with proposed legislation as well as supervise the day to day operation of the State Seed Laboratory.

The additional Seed Analyst II would be responsible for the additional 400 analyses for germination, purity and noxious weed content of rice seed and data entry for all samples received and analyzed by the laboratory.

In response to a similar proposal from this year (SB 387), officials from the **Secretary of State's Office** assumed many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from

ASSUMPTION (continued)

each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

This proposal could increase Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE			
<u>Income</u> - 1% sales tax collection fee (Section 251.615)	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Savings</u> - Rebuilding Communities tax credit program (Section 135.535)	\$0 to \$100,000	\$0 to \$100,000	\$0 to \$100,000
<u>Loss</u> - DED tax credits for making all or portion of dwelling accessible to an individual with a disability (135.562)	\$0 to (\$100,000)	\$0 to (\$100,000)	\$0 to (\$100,000)
<u>Cost</u> - Department of Agriculture (Section 265.525 - Rice Certification)			
Personal Service (4 FTE)	(\$116,706)	(\$144,248)	(\$148,576)
Fringe Benefits	(\$52,821)	(\$65,287)	(\$67,245)
Equipment & Expense	(\$161,481)	(\$145,230)	(\$149,587)
Total Costs - AGR	(\$331,008)	(\$354,765)	(\$365,408)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS	<u>(\$331,008) to Unknown</u>	<u>(\$354,765) to Unknown</u>	<u>(\$365,408) to Unknown</u>
Estimated Net FTE Change for General Revenue	4 FTE	4 FTE	4 FTE

**REGIONAL ECONOMIC
 DEVELOPMENT DISTRICT SALES
 TAX TRUST FUND**

<u>Transfer In</u> - from DOR - voter approval sales tax in regional economic development districts (Section 251.615)	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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<u>Transfer Out</u> - to Regional Economic Development District special trust fund (Section 251.615)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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ESTIMATED NET EFFECT TO THE REGIONAL ECONOMIC DEVELOPMENT DISTRICT SALES TAX TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
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**REGIONAL ECONOMIC
 DEVELOPMENT DISTRICT**

<u>Transfer In</u> - from state's Regional Economic Development District Sales Tax Trust Fund (Sections 251.600 - 251.630)	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
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<u>Costs</u> - Regional economic development district expenses	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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ESTIMATED NET EFFECT TO THE REGIONAL ECONOMIC DEVELOPMENT DISTRICT	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs added or changed in this proposal could be fiscally impacted as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the laws regarding tax increment financing, biodiesel incentives, regional economic development districts, and the Missouri Rice Certification Act.

TAX INCREMENT FINANCING

The bill:

(1) Allows an eligible, locally owned business to participate in the linked deposit program. The majority ownership of an eligible, locally owned business must be comprised of residents of the county in which the business is headquartered. The county in which the business is located must have:

- (a) A population of 12,500 or fewer;
- (b) A median income equal to or less than the state's; and
- (c) An unemployment rate equal to or greater than the state's;

(2) Requires the Joint Committee on Tax Policy to study the feasibility of establishing a program to allow municipalities to engage in tax increment finance-like projects, with optional tax abatement in any area of the municipality without regard to the presence of blight. The committee must report its findings to the General Assembly by December 31, 2007;

(3) Requires, beginning January 1, 2008, any municipality in the counties of St. Louis, St. Charles, or Jefferson to establish a county tax increment financing (TIF) commission in the same manner as St. Louis County. The bill specifies the membership of the 12-member commission;

(4) Requires, beginning January 1, 2008, municipalities in the counties of St. Louis, St. Charles, Franklin, or Jefferson to obtain permission from its county's TIF commission before implementing a tax increment financing project;

(5) Requires, beginning January 1, 2008, a two-thirds majority vote of a municipality's governing body to overturn a TIF commission's recommendation against a proposed tax

FISCAL DESCRIPTION (continued)

increment financing redevelopment plan, project, or area; and

(6) Authorizes a tax credit, beginning January 1, 2008, for certain taxpayers who modify their homes to make them accessible to a disabled person living in the home. Taxpayers cannot receive this credit in two consecutive years. The tax credit has a cap of \$2,500 per taxpayer and an annual cap of \$100,000.

MISSOURI QUALIFIED BIODIESEL PRODUCER INCENTIVE FUND

The bill:

- (1) Changes the definition of "feedstock" as it relates to a Missouri qualified biodiesel producer so that non-Missouri agricultural products are included;
- (2) Requires a Missouri qualified biodiesel producer to register with the Department of Agriculture by September 1, 2007; to begin construction on the biodiesel facility before November 1, 2007; and to begin producing biodiesel fuel before March 1, 2009; and
- (3) Implements specific payback requirements if a Missouri qualified biodiesel producer sells the biodiesel facility after receiving a grant payment from the Missouri Qualified Biodiesel Producer Initiative Fund.

REGIONAL ECONOMIC DEVELOPMENT DISTRICT LAW

The bill:

- (1) Establishes the Regional Economic Development District Law;
- (2) Allows two or more governing bodies to establish a regional economic development district to plan programs encouraging economic development within the district. The governing bodies must enact identical ordinances or mutually agree to the district's establishment. The ordinances or mutual agreements must specify the qualifications, terms, membership, and powers of the district's board;
- (3) Allows the district to impose, upon voter approval, a sales tax of 0.125%, 0.25%, 0.375%, or 0.5% within the district to be used for economic development purposes;
- (4) Creates the Regional Economic Development District Sales Tax Fund for the deposit of all

FISCAL DESCRIPTION (continued)

revenue levied from the district's sales tax;

(5) Prohibits the revenue from the district's sales tax from being included in calculations of moneys available to other special taxing districts that may also be a part of the regional economic development district. Other special taxing districts include tax increment financing districts, neighborhood improvement districts, and community improvement districts. Revenue from the regional economic development district's sales tax can only be used for its purposes and cannot be diverted to any other special taxing district unless approved by the district's board;

(6) Requires the board to make a report available to the public at least annually on the use of its funds;

(7) Allows the board to adopt incremental tax financing for the purposes of the district; however, this cannot be used for any retail projects;

(8) Specifies the manner in which ad valorem taxes and payments in lieu of taxes will be divided among affected taxing districts;

(9) Allows the district to collect 50% of the economic activity tax revenue received from sales within the district for 25 years;

(10) Specifies the requirements of a regional economic development plan;

(11) Requires that certain findings be made by the board before adopting a regional economic development plan, including a determination that the development area has not been subject to growth and development through private investment and that this cannot be reasonably expected to occur without the implementation of regional economic development projects and the adoption of incremental tax financing; and

(12) Allows the district to issue bonds to pay for the costs associated with the regional economic development projects.

MISSOURI RICE CERTIFICATION ACT

The bill:

(1) Establishes the Missouri Rice Certification Act, which prohibits the production,

RS:LR:OD (12/02)

FISCAL DESCRIPTION (continued)

transportation, or handling of certain rice varieties;

(2) Establishes the Rice Certification Committee, which will consist of nine members, specifying its membership, powers, and duties;

(3) Requires the Department of Agriculture to:

(a) Prevent the contamination of rice that has not been identified as having characteristics of commercial impact;

(b) Specify certain notifications for producers, transporters, and receivers of rice with characteristics of commercial impact;

(c) Enforce restrictions on rice with characteristics of commercial impact;

(d) Investigate alleged violations, issue written notices of violation, and impose penalties for violation;

(e) Encourage research and development of new types of rice; and

(4) Authorizes a penalty of \$10,000 to \$100,000 per violation per day for violating these provisions.

The provisions regarding the feasibility study by the Joint Committee on Tax Policy will expire on January 1, 2008; and the provisions regarding the tax credit for home modifications for a disabled person will expire on December 31, 2013. The provisions regarding the Missouri Rice Certification Act become effective 180 days from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of the State Treasurer
Department of Economic Development
Department of Agriculture
Department of Natural Resources
Department of Social Services
Office of the Secretary of State

A handwritten signature in black ink, reading "Mickey Wilson". The signature is fluid and cursive, with the first name "Mickey" and last name "Wilson" clearly distinguishable.

Mickey Wilson, CPA
Director
June 7, 2007